

Message Text

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SUBJ: DANISH ECONOMY

SUMMARY: THE DANISH ECONOMY WAS SLUGGISH IN 1977 AND THE OUTLOOK FOR 1978 IS FOR MORE OF THE SAME. THIS CABLE, BASED ON THE EMBASSY'S LATEST SEMI-ANNUAL TRENDS REPORT, TAKES A BRIEF LOOK AT SOME OF THE LEADING ECONOMIC SECTORS AND INDICATORS. END SUMMARY.

1. GENERAL: THE GOVERNMENT HAS INITIATED A MEDIUM-TERM ECONOMIC ADJUSTMENT PROGRAM TO ATTACK THE COUNTRY'S MAIN ECONOMIC PROBLEMS: A LARGE PAYMENTS DEFICIT, A HIGH RATE OF UNEMPLOYMENT, AND A STILL EXCESSIVE RATE OF INFLATION. THE PROGRAM'S MAJOR ELEMENTS ARE LIMITS ON PUBLIC SPENDING, INCREASED TAXES, AND WAGE RESTRAINT MEASURES. THE ANTICIPATED EFFECT IS SOME REDUCTION IN REAL EARNINGS IN BOTH 1977 AND 1978.

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2. DEMAND: OVERALL DOMESTIC DEMAND IS STAGNANT. FOR THE MOST PART CONSUMER SALES WERE FLAT IN 1977, AND WITH THE ANTICIPATED DECLINE IN REAL INCOME, ARE EXPECTED TO REMAIN SO IN 1978. THE PUBLIC SECTOR HAS IN RECENT PERIODS PROVIDED ALMOST NO STIMULUS TO THE ECONOMY AND WILL PROBABLY DO LITTLE IN 1978, ALTHOUGH EMPLOYMENT INCENTIVES CONTAINED IN THE GOVERNMENT'S ECONOMIC ADJUSTMENT PROGRAM MAY HAVE SOME EFFECT LATE IN THE YEAR. THE OVERALL INVEST-

MENT CLIMATE IS COOL, WITH THE FARM SECTOR A MAJOR EXCEPTION. A POSSIBLE 20 PERCENT INCREASE IN FARM SECTOR INVESTMENT IN 1978 CONTRASTS SHARPLY WITH THE LESS THAN 5 PERCENT EXPECTED IN PLANT INVESTMENT.

3. INTERNATIONAL TRADE AND PAYMENTS: DENMARK'S CHRONIC TRADE DEFICIT WAS REDUCED IN 1977 AND MAY DROP FURTHER IN 1978. IMPORTS ARE SHOWING A STEADY DECLINE AND EXPORTS A LIMITED GROWTH. AMONG DECLINING OR STAGNANT IMPORTS WERE CAPITAL EQUIPMENT AND RAW MATERIALS AND SEMI-MANUFACTURES. THE FORMER IS EXPECTED TO DECLINE FURTHER IN 1978 WHILE STAGNATION IS THE MOST OPTIMISTIC FORECAST FOR THE LATTER. THE FARM SECTOR INCREASED ITS IMPORTS OF FODDERS AND OTHER MATERIALS IN 1977 OWING TO A POOR 1976 DOMESTIC HARVEST. GIVEN AN EXCELLENT 1977 CROP, HOWEVER, THESE IMPORTS ARE LIKELY TO DECLINE IN 1978. IN BOTH 1976 AND 1977 CURRENT BALANCE OF PAYMENTS DEFICITS WERE COVERED BY PUBLIC BORROWING ABROAD. WITH THE PRIVATE SECTOR ALSO BORROWING HEAVILY ABROAD IN 1977, FOREIGN EXCHANGE RESERVES DOUBLED THAT YEAR TO A LEVEL OF SOME TWO BILLION DOLLARS. THE DANISH KRONE, WITH MINOR ADJUSTMENTS DOWNWARD (PARTICULARLY IN RELATION TO THE GERMAN MARK), HAS REMAINED IN THE SNAKE. DENMARK IS DETERMINED TO REMAIN IN THE SNAKE AND AVOID A DEVALUATION WHICH COULD JEOPARDIZE THE GOVERNMENT'S DEFLATIONARY POLICY.

4. MONEY AND CREDIT: THE MONEY SUPPLY IS NOT GROWING PRESENTLY ANY FASTER THAN THE ECONOMY, INCLUDING PRICE RISES. BOTH FISCAL AND EXTERNAL ACCOUNTS IN 1977 APPROACHED EQUILIBRIUM, EACH EXERCISING A MODERATELY CONTRACTIVE INFLUENCE ON LIQUIDITY. EXPANSION OF DOMESTIC CREDIT SLOWED CONSIDERABLY, PARTLY BECAUSE OF STATUTORY UNCLASSIFIED

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RESTRICTIONS IMPOSED ON THE BANKING SYSTEM AND PARTLY BECAUSE OF SLOW INVESTMENT AND REDUCED CREDIT DEMAND FROM BUSINESS. ABOUT HALF OF NEW BANK CREDIT IN 1977 WENT DIRECTLY INTO HOUSEHOLDS. TIGHTER LIQUIDITY HAS FORCED INTEREST RATES UP. BANK LENDING RATES ARE AS HIGH AS 17 PERCENT. THE SAME RATE IS OFFERED ON TREASURY SHORT TERM BONDS, WHICH HAS ATTRACTED HOUSEHOLD SAVINGS FROM DEPOSITS.

5. PRODUCTION GROWTH AND UNEMPLOYMENT: IN 1977 MANUFACTURING INDUSTRIES MAINTAINED AN EIGHT PERCENT GROWTH IN PRODUCTION IN CURRENT PRICES, OR 1-2PC IN REAL TERMS, AND PROSPECTS FOR STRONGER GROWTH IN 1978 ARE NOT BRIGHT. PRODUCTIVITY IN 1977 REGISTERED A GAIN BETWEEN THREE AND FOUR PERCENT, BUT THE LIMITED PRODUCTION INCREASE WAS INSUFFICIENT TO EMPLOY THE PRESENT WORK FORCE MUCH LESS TO ABSORB NEW LABOR INFLOWS. UNEMPLOYMENT ROSE FROM 5.5 PERCENT IN 1976 TO 6.5 PERCENT IN 1977. DURING THE WINTER 1977-78, UNEMPLOYMENT MAY WELL EXCEED EIGHT PERCENT.

6. PRICES AND WAGES: THE CURRENT RATE OF INFLATION ON A NATIONAL ACCOUNTS BASIS IS ABOUT NINE PERCENT (AROUND THE EUROPEAN AVERAGE) AND IS NOT EXPECTED TO DECLINE MUCH IN 1978. WITH A HEAVY IMPORT COMPONENT IN DANISH PRODUCTION AND CONSUMPTION, PRICES DEPEND TO A LARGE EXTENT ON DEVELOPMENTS ABROAD. DOMESTIC SOURCES OF INFLATION, HOWEVER, APPEAR TO HAVE BEEN CHECKED TO SOME EXTENT. THE INDUSTRIAL WAGE RISE IN 1977 WAS PROBABLY BELOW TEN PERCENT, A

SIGNIFICANT IMPROVEMENT FROM THE DOUBLE DIGIT RATES OF 1974-75.

WAGE DRIFT IS CLEARLY QUITE LIMITED AT PRESENT.

7. IMPLICATIONS FOR US EXPORTS: THE MAJOR US EXPORTS TO DENMARK ARE FARM PRODUCTS, INVESTMENT GOODS, AND SELECTED BUILDING MATERIALS. SINCE THE DANISH MARKETS FOR ALL THESE COMMODITY GROUPS ARE EXPECTED TO STAGNATE OR DECLINE IN 1978, PROSPECTS ARE SOMEWHAT DIM. US EXPORTS, HOWEVER, HAVE PREVIOUSLY SHOWN STAMINA WHEN THE DANISH MARKET WAS WEAK AND MAY DO SO AGAIN. IMPROVED COMPETITIVENESS MAY HELP THE US TO MAINTAIN EXPORTS OF CAPITAL EQUIPMENT. LUKENS

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